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Analysis of Business Trends Plus Selected Financial Indicators

An Economic Revolution South of the Border

Although news headlines this year have been focusing on the dramatic events going on in Eastern Europe, economic changes just as revolutionary are taking place south of our own border. Since assuming office eighteen months ago, Mexico's president, Carlos Salinas de Gortari, has launched his country on an economic modernization and liberalization drive that is turning around decades of state planning, control and protectionism.

He has slashed public spending, dismantled trade barriers, put hundreds of state-owned enterprises—from the national airlines to the telephone company—up for sale and liberalized foreign investment regulations. He has also vigorously enforced a strict anti-inflation pact between the government, businesses and labor unions, which has limited wage and price increases and controlled the exchange rate between the peso and the dollar.

The government's tough economic policies are starting to bear fruit (table). The inflation rate has plummeted from almost 160 percent in 1987 to less than 20 percent last year. At the same time, the economy expanded by almost three percent, marking the first year since 1985 that the rate of economic expansion has exceeded the rate of population growth. Even more impressive has been the commitment of the government to put its own finances in order, a fact that bodes well for the long-term success of Mexico's economic policies. The combination of tax reform and spending cuts brought the public sector deficit from a whopping 16 percent of GDP in 1987 to less than six percent last year. In fact, excluding interest payments, the government's financial balance is actually in surplus, equivalent to some seven percent of the economy.

One unfortunate by-product of the government's economic program has been a sharp deterioration in the country's trade and current accounts. The combination of the dismantling of import barriers and the pickup in economic growth has caused Mexico to post a trade deficit of $644.8 million last year, the first red-ink figure since 1981. As a result, the current account deficit soared to $5.4 billion last year from less than $3 billion in 1988.

MEXICO:
SELECTED ECONOMIC STATISTICS

	Year		
	1987	1988	1989
Real GDP Growth (%)	1.4	1.1	2.9
Inflation Rate (Year End; %)	159.2	51.7	19.7
Public Sector Deficit as % GDP (%)	16.1	12.2	5.9
Exports (US $ billions)	20.66	20.66	22.76
Imports (US $ billions)	12.22	18.91	23.41
Trade Balance (US $ billions)	8.44	1.75	- 0.65
Current Account Balance (US $ billions)	4.0	- 2.9	- 5.4

Sources: IMF; Mexican Finance Ministry

A marked deterioration in trade performance, however, is a common result when a country undertakes the types of reforms that Mexico is currently initiating. Although Spain and Portugal have prospered since joining the European Community (E.C.) in 1986, both countries have seen their trade deficits soar as E.C. regulations forced them to dismantle import barriers. Perhaps the most significant sign that Mexico is serious about reforming its economy is President Salinas's decision to change the country's constitution in order to reprivatize the banking system that was nationalized in 1982 and to get permission from the Mexican Congress to seek a free-trade agreement with the United States.

Why Now?

Mexico's willingness to form closer ties with the United States marks a dramatic shift in the country's economic and political thinking. Because of the difference in economic development between the United States and Mexico and because of Mexico's traditional mistrust of the "Colossus to the North", preserving its sovereignty and independence has been the cornerstone of Mexican foreign policy. So why the change now? Why is Mexico suddenly opening its arms to foreign investment in general and looking for better relations with the United States in particular?

In a word, Mexico needs money. It needs capital to sustain economic growth in order not to risk losing the gains that President Salinas has already achieved. It needs funds to invest in

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health, education, infrastructure and other social areas that have been badly neglected in recent years, if his reforms are to maintain the support of the Mexican people. Also, because Mexico must now finance a growing current account deficit, the government must look to private investment to sustain economic activity, since previous sources of funds have virtually dried up.

In order to attract such investment, however, the government must foster confidence in its economic policies, while making Mexico an attractive place to invest. Indeed, the sudden rise of investment opportunities in Eastern Europe has made it all the more urgent for Mexico to act quickly. At the same time, with Western Europe preoccupied with the 1992 single market and developments in Eastern Europe, and Japan involved in the Pacific rim, President Salinas has come to realize that Mexico's future depends upon closer ties with the United States, starting with a free-trade agreement between the two countries.

For one thing, a free-trade agreement with the United States would be, in effect, a U.S. endorsement of Mexico's economic program, helping to build investor confidence in Mexico. For another, it would boost Mexico's manufac-

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/13/90)	214,011	- 1,233	- 3,540
New York City (6/20/90)	39,479	+ 171	- 3,097
Commercial Paper (6/20/90)	550,368	+ 232	+ 46,424

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/13/90)	322,751	- 431	+ 6,283
New York City (6/20/90)	57,934	- 71	+ 421

Total Loans and Leases Gross Adju

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/13/90)	1,013,695	+ 999	+ 50,827
New York City (6/20/90)	182,683	- 292	+ 2,524

Financial Markets

	Friday 6/29/90	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.99%	- .02	- .24
180-Day Bills†	8.00	- .05	- .12
Longest Bills†	8.03	- .06	- .07
Recent Issues:			
8¾s 6/30/92 (When Issued)	8.24	NA	
8½s 6/30/94 (When Issued)	8.35	NA	
8⅞s 5/15/00	8.41	- .09	
8¾s 5/15/20	8.40	- .08	
Municipals:			
Bond Buyer—20 Bond Index* (6/28/90)	7.27%	- .01	+ .25
Blue List Total ($ Million)	$1,426	- $ 2	+$ 51
30-Day Visible Supply ($ Million)	$1,829	- $466	- $ 66
Total	$3,255	- $468	- $ 15
Corporates:			
Moody's Aa Composite (6/28/90)	9.50	- .01	+ .29
30-Day Visible Supply ($ Million)	$1,220	+ $200	- $2,788
Stocks:			
Dow-Jones Averages:			
Industrials	2,880.69	+ 23.51	+440.63
Transportation	1,142.70	- 21.53	- 6.07
Utilities	209.95	+ 1.76	+ .25
65 Stocks	1,030.97	+ .19	+ 87.11
N.Y.S.E. Composite Index	195.48	+ 1.24	+ 17.58
N.Y.S.E. Avg. Daily Vol. for Week (000's)	140,756	- 2,636	- 22,398

*34% Taxable equivalent 11.02%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/29/90	Week Ago
Overnight	8.38%	8.19%
1 month	8.19	8.19
3 month	8.25	8.25
6 month	8.25	8.31
1 year	8.38	8.44

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/29/90)	Currency Per U.S. $	Week Ago
Belgium	34.24	34.46
Canada	1.1681	1.1799
France	5.5955	5.6385
Germany	1.6670	1.6798
Italy	1223.00	1230.70
Japan	152.27	154.80
Mexico	2822.60	2817.00
Netherlands	1.8770	1.8895
South Korea	708.05	708.05
Switzerland	1.4130	1.4110
Taiwan	26.90	27.10
U.K.*	1.7445	1.7285

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (6/29/90) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	0.0%	-4.7%

tured exports, the engine of the country's economic growth over the past few years. Finally, by ensuring a huge and steady market for products made in Mexico, it would help to further entice foreign investors to come to Mexico.

The U.S. Will Benefit Also

A free-trade agreement with Mexico, which has the support of President Bush and most big businesses in this country, would also benefit the United States. A potential market of 100 million consumers by the end of the decade will produce new export opportunities for American companies. Also, with declining oil reserves and rising production costs here, Mexico can offer a secure source of oil and petroleum products.

Most of the resistance to free trade with Mexico in this country appears to be coming from organized labor. Unions are apparently worried that low wages in Mexico will drive down wages here and prompt U.S. companies to set up shop south of the border, in effect sending thousands of U.S. jobs abroad. On the other hand, sustained growth and job creation opportunities in Mexico can't help but foster economic progress on both sides of the border. Indeed, the United States can only benefit from a more prosperous and economically stable Mexico.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/27/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	236.022	+ .594	- 2.863
Loans to Depository Inst.	.621	+ .112	- .371
Float	.572	+ .047	- .992
Total Reserve Bank Credit	277.919	+ 1.091	+ 6.821
Treasury Deposits with Federal Reserve Banks	5.364	+ .361	- 12.979
Currency in Circulation	265.468	- .348	+18.170
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	227.365	- 2.776	- 5.754
Member Bank Reserves:	**6/27/90**		
Total Reserves Held	59.508	- .080	+ 1.667
Excess (Deficiency)	1.072	+ .612	+ .171
Net Free Reserves	.689	+ .961	+ .466
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**Year Ago**
M1 (6/18/90)	807.6	+ 1.2	+ 4.3
M2 (6/18/90)	3,269.4	0.0	+ 5.5
M3 (6/18/90)	4,055.9	- 1.0	+ 2.0
Domestic Nonfinancial Debt (1st Q'90)	9,987.4	+ 7.5	+ 8.1

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 6/29/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.76%	7.62%	7.51%
* Federal Agencies	8.15	8.20	8.30
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.52	8.71	8.71
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.30	8.30	8.35

‡ Finance Company Paper–Prime

5- 14 days	8.25%
15- 29 days	8.20
30- 59 days	8.16
60- 89 days	8.10
90-179 days	8.00
180-239 days	7.88
240-270 days	7.88

‡* Bankers' Acceptances

Jul.	8.15%
Aug.	8.12
Sep.	8.06
Oct.	8.03
Nov.	7.97
Dec.	7.93

‡ Industrial Paper–Prime

30- 89 days	8.22%
90-120 days	8.15

†Federal Funds Effective Rate 7.50%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'90	$ 5,433 r	$ 5,340	$ 5,113
Gross National Product (1982 Dollars)*	1st Q'90	$ 4,193 r	$ 4,174	$ 4,107
Percent Change, Annual Rate	1st Q'90	1.9 r	1.1	3.7
Change in Consumer Prices*	May '90	2.4 %	2.4%	4.8%
Change in MH Cost of Living Index*	May '90	2.4 %	1.2%	7.2%
Change in Producer Prices*	May '90	3.6 %	- 3.6%	8.4%
Civilian Employment (Thousands of Persons) †	May '90	118,350	118,116	117,132
Unemployment as % of Civilian Labor Force †	May '90	5.3%	5.4%	5.2%
Personal Income*	May '90n	$ 4,701	$ 4,687r	$ 4,396
Leading Indicators Composite Index (1967=100) †	May '90n	146.2	145.1r	144.2
Industrial Production Index (1977=100) †	May '90	109.7	109.0	108.3
Net Change in Consumer Installment Credit †	Apr '90	$ 0.58	$ 2.41	$ 3.33
U.S. Merchandise Trade Balance †	Apr '90	- $ 6.94	- $ 8.36	- $ 7.65
Plant and Equipment Expenditures*	3rd Q'90	$ 511.6(a)	$ 506.8(a)	$ 484.9
Private Housing Starts (Thousands of Units)*	May '90n	1,207	1,224r	1,341
New Construction Expenditures*	Apr '90	$ 432.4	$ 435.6	$ 411.9
Total Business Inventories †	Apr '90	$ 794.5	$ 793.7	$ 772.9
Total Business Sales †	Apr '90	$ 533.0	$ 539.0	$ 523.5

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure r-Revised. a-Anticipated.

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